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SUBJECT: A/S DESUTTER'S AUGUST 18-19 VISIT TO CHILE:

SCENESETTER

1. Summary: Following a successful run on the international stage, Chile is shifting its focus to domestic issues and its December 11 presidential and congressional elections. Former Defense Minister and ruling coalition candidate Michelle Bachelet is the favorite to succeed President Lagos. Chilean chief executives are legally barred from seeking re-election. All three main presidential candidates are likely to keep the country and our relationship on track. Chile's economy is robust and stable. Chile continues to play a leading role in Haiti, and is cooperating with us on Venezuela. Military relations are growing, and President Lagos has expressed interest in strengthening relations as an element in modernizing the role of the Chilean military. Chile continues to partner with us on non-proliferation and counter-terrorism issues of shared concern. End summary.

FROM APEC TO COMMUNITY OF DEMOCRACIES

2. Minister of Interior Jose Miguel Insulza's May election as OAS Secretary General capped a successful six-month run on the international stage for Chile. During this time, Chile hosted two high-level international meetings (APEC Leaders' Week and Community of Democracies Ministerial), concluded (in December 2004) a productive two-year term on the UNSC, and maintained a leadership role in Haiti peacekeeping efforts. Throughout, Chile generally proved to be a reliable and rational partner for the U.S.

DOMESTIC SCENE

3. Chile will hold presidential and congressional elections on December 11, 2005. This will be Chile's fourth presidential election since the end of the Pinochet era in 1989. The previous three elections were judged free and fair, and there is no reason to expect otherwise for the upcoming one. There are currently four presidential candidates: the Socialist Party's Michelle Bachelet (representing the ruling Concertacion coalition); the Independent Democratic Union's Joaquin Lavín; the National Renewal's Sebastian Pinera; and the Communist Party's Tomas Hirsch. (President Ricardo Lagos, who is riding high in the polls, as incumbent is constitutionally barred from serving consecutive terms.) Bachelet, the Concertacion's presidential candidate and former defense minister, is leading in the polls. She would become Chile's first female president if she wins. Half the seats in both the Senate and the Chamber of Deputies are also up for election on December 11. The new president and members of Congress will take office on March 11, 2006.

4. In recent years, Chile has taken a number of significant steps to strengthen democratic institutions and deal with the human rights abuses of the past. In November 2004, the National Commission on Political Prisoners and Torture (Valech Commission) issued a landmark report on human rights abuses during the Pinochet era, and the judicial system continues to investigate and prosecute a number of human rights cases. In June, a historic, country-wide judicial reform went into effect in Santiago, the last of the municipalities. In July, Congress passed a number of constitutional reforms designed to increase civilian control over the military.

ECONOMY

5. Chile's economy is the main reason behind President Lagos' 70 percent approval rating. The Chilean economy grew at an impressive 6.1 percent in 2004 -- almost double the rate in 2003 -- and may do even better in 2005, due in large measure to a boom in global copper prices. Bilateral trade increased over 30 percent during the first year of the U.S.-Chile Free Trade Agreement, and related cooperation on labor and environmental protection is going well. Chile's inadequate protection of intellectual property rights remains a significant sore point, and both sides are anxiously awaiting better, new market access for beef and poultry. The U.S.

remains Chile's most important source of foreign investment, although Spain surpassed us in 2004 as the number one provider of foreign direct investment. Since 1990, U.S. firms have invested over USD 16 billion in Chile, with a concentration in the energy, telecommunications and mining sectors. U.S. companies generally praise Chile's mostly transparent but close-knit business climate.

Regional Issues

16. Chile has been increasingly willing to assume leadership roles in recent years. Former Minister of Interior Jose Miguel Insulza was elected OAS secretary general in May. In Haiti, Chile responded positively to the USG's request for support in February 2004, and self-deployed a battalion to Haiti within 48 hours. Chile currently has approximately 600 troops deployed there as part of the UN Mission, and a Chilean civilian serves as UN Special Representative. In May, the Chilean Congress voted to extend Chile's troop deployment for six months to December 2005, with a provision that the Government can extend the deployment for an additional six months to June 1, 2006. On Venezuela, despite its center-left political orientation, the governing Concertacion coalition is wary of President Chavez. The GOC shares our frustrations with the Venezuelan leader's behavior, particularly his non-democratic ways, and is concerned that his rhetoric and actions (especially regarding Bolivia) could prove destabilizing for the region. FM Walker met with the Venezuelan opposition group SUMATE in Santiago on August 9.

NON-PROLIFERATION

17. Chile shares many of our non-proliferation and disarmament objectives. The GOC supported a number of U.S.-sponsored initiatives during its tenure on the UNSC and its chairmanship of APEC. It recently co-sponsored the OAS MANPADS resolution. The GOC has expressed general support for PSI, observed Operation Chokepoint in November 2004, and attended both PSI anniversary events. However, the GOC has stopped short of endorsing PSI -- either privately or publicly. The MFA has doubts about its ability to engage in interdictions given its other treaty obligations. It is seeking a recommendation from the Defense Ministry, as there are also Navy operational issues. The Defense Ministry is in general agreement with the purpose and intent of PSI, but has expressed concern over its implementation with respect to the sovereignty of foreign-flagged vessels and particularly the interdiction and boarding of vessels outside Chilean territorial waters but within their economic exclusion zone.

18. Chile is a signatory to the IAEA additional protocol. Chile enforces the United States Coast Guard's International Ship and Port Facility Security Code (ISPS). Chile is not a signatory to the Container Security Initiative (CSI) or the Megaports Initiative. The GOC is considering seeking membership in the MTCR, the Australia Group, and the Wassenaar Group.

MILITARY COOPERATION

19. President Lagos has expressed interest in strengthening U.S.-Chile military relations as an element in modernizing the Chilean military's role and establishing its appropriate place in Chilean society. There is no Status of Forces Agreement (SOFA) between the GOC and USG and, due to political realities, there is little chance of negotiating one until after the new Chilean administration takes over in March 2006. That said, the GOC provided limited yet adequate protections to DOD personnel involved in the seven military exercises that took place during 2005.

10. The GOC will begin taking delivery in January 2006 of ten F-16 fighter aircraft -- the first major purchase of U.S. equipment since our cut-off of military sales during the Pinochet era. The Army and Navy are also considering significant purchases of U.S.-manufactured systems. The U.S. has also provided over \$1 million to Chile's topnotch military training facility for peacekeeping, and has been working to increase the GOC's global peacekeeping role. Chile has contributed small contingents to missions in Cyprus, Bosnia and Kosovo, in addition to the 600 troops and engineers in Haiti.

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11. Chile has signed but not ratified the Rome statute. The governing coalition supports ratification, but does not have

the votes in Congress. Ratification is not likely until the composition of Congress changes in March 2006, at the earliest.

COUNTER-TERRORISM

12. Chile remains on the terrorists "least desirable" list in the hemisphere. The GOC has been supportive of U.S. counter-terrorism policies, particularly during its time on the UNSC. Chile is a signatory to all 12 UN anti-terrorism conventions and protocols, and the UN International Convention for the Suppression of the Financing of Terrorism.

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